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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 001678

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DOE FOR INTERNATIONAL/C.DAY; A. LOCKWOOD
NSC FOR JOSE CARDENAS

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SUBJECT: TAIWAN TRIES TO RETAIN FOOTHOLD IN VENEZUELAN OIL
VENTURE

REF: A. CARACAS 1281

[1](#)B. CARACAS 1314

Classified By: Economic Section Chief Hanscom Smith for reasons 1.4 B/D

[1](#)1. (SBU) SUMMARY. As world oil prices reach US\$77.00 per barrel, the highest in 11 months, state-owned Chinese Petroleum Corp. (CPC) is caught in a quandary. The Venezuelan National Petroleum Corp (VNPC) intends to buy back oil exploration rights at cost from all entities with less than 10 percent investment in Venezuelan oil ventures. CPC has invested in oil ventures in the U.S., Indonesia, Libya, Chad, Australia, Venezuela and Ecuador. CPC's overall exploration budget is expected to triple from NT\$ 3 billion (US \$91 million) in 2007 to NT\$ 10 billion (US \$300 million) by 2010. CPC, through its subsidiary Overseas Petroleum Investment Corp. (OPIC), has a 6.5 percent interest in the Gulf of Paria West and a 7.5 percent interest in the Gulf of Paria East regions of Venezuela, where light crude has been found. OPIC has a joint oil exploration project with the Venezuelan National Petroleum Corporation (VNPC) and wants to continue developing its concession together with its partner, U.S.-based Conoco/Phillips. In view of the Venezuelan government's decision to nationalize its oil resources, however, CPC is considering seeking a legal solution. To hedge political risks, future CPC investment will likely center around the Gulf of Mexico and Texas. END SUMMARY

[1](#)2. (C) On July 19, CPC exploration manager Hsu Yeong-yaw complained to us about the Chavez government's new policies aimed at nationalizing the petroleum industry. For example, landing visas for Taiwan nationals, which were routinely issued in the past, have now been cancelled. Now, if CPC wants to send technicians to Venezuela, it must first obtain a visa in a third country, which increases the difficulties of doing business. He said CPC's original contract (together with Conoco/Phillips), was a profit-sharing agreement which allowed Taiwan financial management of the project. The Venezuelan side recently changed the contract to a limited-mixed contract, increasing its share from 35 percent to 60 percent. OPIC currently holds a 35 percent stake in the Corocoro (Paria West) region and nothing in Paria East. By raising VNPC's stake to 60 percent, OPIC's share will be non-existent in Paria East. CPC has invested US \$78 million in the Paria West and East blocks and the Venezuelans are only willing to compensate the loss at book value. Taiwan will merely be a shareholder, with no say over how its

investment will be managed. In order to retain oil exploration rights, Taiwan has asked for a meeting with the VNPC in Houston to join negotiations now underway with ExxonMobil and Conoco/Phillips, both of whom have rejected VNPC's buyback program (Reftels).

13. (C) Hsu said the Gulf of Paria oil is a light crude (low sulfur) of 25-40 grade which is easier to refine than that found in Ecuador, where CPC has also drilled wells and is pumping oil. The Gulf of Paria West concession is producing 120,000 barrels/day with a capacity of 450 million barrels, while Gulf of Paria East is still being surveyed. Conoco/Phillips has already sought legal means to resolve the conflict, and CPC is considering whether or not to seek a legal solution. Hsu said CPC is able to draw 1,000 barrels a day out of a total 30,000 barrels from its concession, so its share from the oil field is very small. However, Gulf of Paria East offers great potential, which in Hsu's view Taiwan will not be able to exploit given the current policy. Hsu also believes that under the new regulatory regime, foreign companies will lose their control over oil operations, but will still be required to provide technical support. Without the technical expertise, Hsu doubts that Venezuela can operate its oil fields for more than two years before it runs into difficulties.

14. (C) CPC officials are aware that nationalization of oil resources is a growing international trend and their overseas ventures are increasingly at risk. Hsu cited the example of Sakhalin, where the oil majors have been driven out by the Russian government. In Ecuador, CPC has seen its profit margins reduced as the Ecuadorian government also embarks on a policy of limiting foreign companies' control of oil

TAIPEI 00001678 002 OF 002

resources. In this atmosphere of uncertainty, Hsu said CPC's future strategy will primarily center on Texas and the Gulf of Mexico, where investment is protected by law.
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